

**TESTIMONY
U.S. HOUSE OF REPRESENTATIVES
THE COMMITTEE ON ENERGY AND COMMERCE**

**SUBCOMMITTEE ON
COMMERCE, TRADE, AND CONSUMER PROTECTION**

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Mr. Chairman. Congressman Schakowsky. Members of the committee. Thank you for the opportunity to appear before you and discuss CAFTA, the Central American Free Trade Agreement, which now includes the Dominican Republic as well.

On the surface, CAFTA would seem to be an easy agreement for the United States to support. Many products and services already arrive duty-free in the United States from Central America. But under CAFTA, many products and services currently protected in Central America would now have to compete with American exports, opening markets to numerous American products.

Yet CAFTA remains highly controversial with concerns that the agreement will cost the United States jobs trying to compete with low-wage workers in Central America working in a less demanding regulatory environment.

Having recently traveled to Costa Rica at the invitation of the State Department to speak on trade issues, I was struck by the similarity of the concerns raised in Costa Rica. Surely, little Costa Rica would have no chance of standing up to the United States economy. Jobs would be lost to the powerful American workers.

Both arguments cannot be right. It cannot be that employment in both economies will shrink as the other expands. One of these worries is wrong. Or both are. But both cannot be right.

Both are wrong. When NAFTA passed, we were told of the millions of jobs that would inevitably flow to Mexico because of Mexico's lower wages and less rigorous labor and environmental standards. Yet those fears were unrealized. They were no more plausible than the notion that all of America's jobs would end up in Mississippi because of Mississippi's low wages.

Trade changes the kind of jobs we do, but in a flexible labor market, particularly one as dynamic as the United States, the number of jobs is determined by how many people want to work and the skills they have. The main effect of trade is to allow both trading parties to use their skills wisely and effectively.

Costa Rica currently has a state monopoly on telecommunications. There are a lot of engineers employed by that state monopoly. What will happen to them when that monopoly is opened to competition by CAFTA? Some will keep their jobs working in

areas like land-line phones that the government will probably still be able to provide competitively. Some will find work with American firms now free to operate profitably in Costa Rica. Some will lose their jobs and find work as engineers outside of the telecommunications industry. And some will lose their jobs and find work outside of engineering.

The average Costa Rican who is not an engineer employed by the state-run telecom company will be better off. The average Costa Rican will enjoy lower prices and more choices. That will mean more resources left over to do new things with, new products and services to enjoy that were not affordable before. That in turn will mean more employment in Costa Rica as those products and services expand, offsetting any job losses in the engineering sector.

The bottom line for Costa Rica is better phone service and internet access at lower prices and more opportunities created elsewhere in the economy. Understandably, Costa Rican engineers are nervous about the uncertainty and challenges of the future. But the net effect on Costa Rica would be positive.

The same logic applies to the Costa Rican car industry. Wisely, Costa Rica doesn't have a car industry—it would be too expensive. It would create inefficient and unproductive jobs in the car sector relative to other sectors. By importing cars, Costa Rica gives up those jobs and creates jobs elsewhere. By importing cars, Costa Rica uses

the skills of its people more wisely and the result is less expensive cars for Costa Ricans to enjoy.

I spoke to a wide array of people in Costa Rica—students, journalists, labor representatives and government cabinet ministers. Being a small country that has undergone a great deal of economic change in the last 25 years, they were very aware of the benefits of being part of the global trading system. They also understood the uncertainty and unpredictability of the future. But most Costa Ricans I spoke to embraced that change as an inevitable part of growth and the transformation of their economy.

But they would always ask the same question. If trade is good, why doesn't CAFTA allow Costa Rica to export sugar freely to the United States? Costa Rica is willing to cope with the challenge of competing with American telecom engineers and American telecom companies? Why isn't America willing to cope with the challenge of Costa Rican sugar farmers?

They were referring to the fact that while American farmers and telecom companies and medical device companies would have relatively open access to sell their products in Costa Rica, sugar farmers in Costa Rica would have very little freedom to sell their sugar in America. Despite the words “free trade” in the title of the agreement, CAFTA would allow only the tiniest of expansions in sugar imports phased in over 15

years. CAFTA limits the expansion of sugar imports into the United States to less than 2% of US consumption over the next 15 years.

Why do Americans fear Costa Rican sugar?

They don't, I would explain to my hosts in Costa Rica. Not most Americans, anyway. In fact, keeping out foreign sugar punishes me and every other consumer in the United States. The US price of sugar is roughly double that of the rest of the world. We are punished, not you, I explained, by the decision to keep out virtually all sugar from Costa Rica that might come in under a truly open market. Jobs created in the sugar industry are offset by job losses in the American candy and food industries and elsewhere.

So we negotiate a trade agreement with some of the poorest countries in the region but we make sure that one of the things that they do best, grow sugar, is essentially off the table. There is no attractive way to defend that policy when you're standing in the fields of a poor country.

It makes no more sense for America to insist on always growing its own sugar than it does for Costa Rica to use protectionism to create a Costa Rican car industry. But that is what we have decided with CAFTA.

So CAFTA is not perfect. In a perfect world, sugar would be freely traded along with telecom services and cars and tourism and ornamental plants and corn and chicken. But CAFTA is a step in the right direction. It lowers trade barriers on an enormous range of products that are traded in the region. The best should not be the enemy of the good. CAFTA will encourage the signatories to the agreement to do what they do best and the result will be a higher standard of living for all of the partners to the agreement.

Ironically, despite the special treatment of the American sugar industry in CAFTA, the American sugar industry has become the flashpoint for the debate over the agreement in this country. Even though the sugar industry gets preferential treatment, even though the sugar industry has quotas and tariffs in place that isolate them from world competition, even though the sugar industry has made sure that CAFTA leaves their domestic monopoly virtually intact, somehow, the entire debate over CAFTA is about fear of losing jobs in the sugar industry.

That's quite an achievement for an industry with less than 60,000 employees. (The sugar industry claims there are 372,000, but that number is inflated by counting corn sweetener jobs and then multiplying the total by two and a half.) About 8 million jobs are destroyed and created every quarter in the US economy. When the economy is going well, more jobs are created than destroyed. When we are in a recession, more jobs are destroyed than created. But the norm is good times—a growing economy where there is net job growth, where more jobs are created than destroyed. But even in good times, millions of jobs disappear for thousands of reasons—companies go out of business,

consumers decide they want fewer of one thing and more of another. These jobs are replaced by new jobs in new companies or companies that are expanding.

Millions of jobs appearing and disappearing. That is a sign of great economic health, that churning of jobs in response to new desires, new information, new technology and new opportunity. All of those jobs destroyed and created in response to economic change. It is a strange thing to exert all this political energy to stop economic change in one tiny sector, the sugar industry, but because it is identifiable, the sugar jobs and the sugar profits get special treatment.

Our natural concerns for workers in the sugar sector and other sectors that will be affected by CAFTA should not confuse us about the costs of stopping the economic changes that CAFTA will bring. Economic changes like free trade create our standard of living and the incredible opportunities that each generation has to shape the world according to its dreams and skills. Without economic change, without trade, without innovation, our economy would be stagnant. A dynamic economy and a growing standard of living are the greatest gifts we can give each generation.

Even with such benefits, economic change is always challenging, no matter its source and no matter how small or how fair such change is. I was explaining to my children how understandable it is for people to fear change and competition. For example, I explained, imagine being a white baseball player when there was discrimination in baseball and African-American players were not allowed to play in the

major leagues. You would be worried about losing your job to a better player. My seven-year old did not find this understandable. What about Willie Mays, he wondered. And he told me that the white players should have been in favor of letting African-Americans play because it would be good for the team. Besides, he said, keeping out some players because of the color of their skin isn't nice.

That got me thinking about the Dominican Republic. At the start of this year's baseball season, 385 players born in the Dominican Republic had played in the major leagues including Pedro Martinez, Sammy Sosa, Albert Pujols, Miguel Tejada, Vladimir Guerrero and Manny Ramirez. Surely, the game of baseball is better for allowing them to play here. Surely our lives as fans have been enriched by their excellence. And surely their lives have been enhanced by the opportunity to play here.

Who would argue that we should keep them out in order to create more opportunity in baseball for native-born Americans? As my seven year old understands, that would not be nice. And it would be bad for baseball and its fans.

It is good that we have let players from all over the world come to America to use their skills to their greatest advantage. Both America and those players benefit. And it will be good to let other things besides baseball players come to the United States from the Dominican Republic and her fellow nations in Central America. In return, we will send our products using our skills to help them in return. CAFTA will be good for the United States, good for the Dominican Republic and good for Central America. It will

raise the standard of living of each nation, but perhaps more importantly, it will make sure that the peoples of each nation have the greatest opportunity to use their skills in the most effective and productive ways.

SUMMARY OF TESTIMONY BY DR. RUSSELL ROBERTS

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- CAFTA will have little effect on the number of jobs in the United States but changes the kind of jobs in our economy and in Central America.
- CAFTA will bring benefits to consumers and allow each signatory country to use the skills of its people wisely and most effectively.
- Economic change caused by CAFTA, like all economic change, will be challenging to some sectors but ultimately, a dynamic economy creates new opportunities and is the source of our standard of living.
- Keeping out products from poorer nations that can be produced there more effectively than in the United States punishes American consumers, punishes workers in poor countries and hampers opportunity and economic growth both here and there.